**SECRET**

4 JUN 1963

MEMORANDUM FOR: Chief, Budget Division

SUBJECT : Financial Code Classification By Activity
and Category

1. There are increasing demands for accumulation of budgetary data
by activity or category (sub-activity) - by area, by country, by project.
I am convinced that we can never satisfactorily meet these requirements
by the "hand posted" methods now in use. I believe they can be met through
machine accumulation, but to do so we must establish a classification
system adaptable to machine operations and responsive to our requirements.
This implies a certain loss of flexibility, requires more emphasis on
detailed planning, and forces general agreement (within and without the
Agency) on the classifications to be used.

2. The present classification system does not support our budget
presentations. It identifies the following activities:

5X1A

It does not contain any sub-activity or category classification. In the
Plans Area it lumps essentially everything other than project costs into
"Overhead" which must be distributed by percentage to the other activities
for budget presentation. In the Intelligence and Support Areas, organiza-
tional structure provides a means of distributing support by sub-activity.

3. The budget as presented to the BOB and the Congress appears to be
based upon an activity classification which does not, in fact, exist. From
data classified in the above manner our most recent budget submission was
presented using the following activity format:

5X1A

GROUP 1
Excluded from automatic
downgrading and
declassification
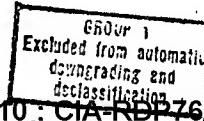
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- 2 -

SUBJECT: Financial Code Classification By Activity and Category

X1A

This was accomplished through the percentage distribution of overhead to activities and the manual distribution of organizational data to appropriate activities (Logistics, for example, was distributed among almost all activities).

4.   I believe the past few budget exercises have demonstrated that we can not "live" with this system. It results in budget presentations which have no basis in accounting records and which are essentially fabrications. You are only too familiar with the fact that differences between activities from one year to another can not be explained in any logical or supported basis and that any questions which might go beyond a superficial inquiry would inevitably become very embarrassing.

5.   We had found earlier that it was too late to "correct" the present classification code for FY 1964. The Financial Code Committee is now at work on a revised code for FY 1965. We must, therefore, provide guidance to them if we are to have a means of progressing into machine methods in the budget process or a means of distributing support costs more adequately, both of which I'm sure you consider priority projects. I propose that this guidance be furnished in the form of a revised activity classification code which will also classify sub-activities or categories as follows:

| Activities | Categories |
| | (Sub-activities) |

25X1
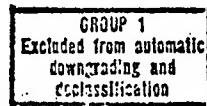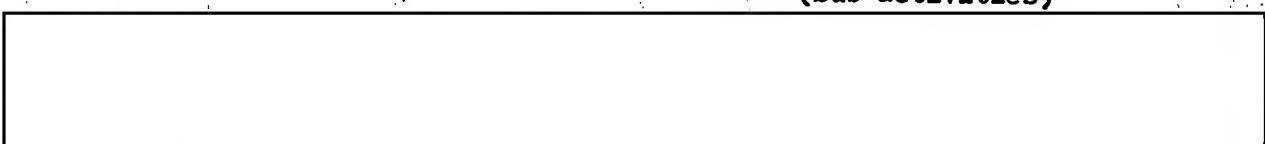
GROUP 1
Excluded from automatic
downgrading and
declassification

SUBJECT: Financial Code Classification By Activity and Category.

This proposal involves two principal developments:

  a. An established activity classification by which we shall prepare, defend and, to a large extent, administer the Agency budget.

  b. The classification of "support" costs by activity to the extent practicable.

6. The first of these I see as primarily a matter of agreeing upon a system and, in order to get the maximum benefit from it, sticking to that system. Some change will be inevitable through new developments, but we must make every effort to eliminate the changes which are due to lack of planning or to insufficient consideration at management levels within the Agency and the BOB. We can not otherwise avoid the incomparability of presentations which distort facts or impair the usefulness of the budget document. We should consider:

  a. The adequacy of the activity list as a format for budget presentation - supplemented by supporting detail in category, organizational element, location and object.

  b. The adequacy of the categories or sub-activities as the main sub-divisions of each activity with the identification, rather than concealment of true "support" costs.

7. The second is complementary and involves more realistic accounting for all support and overhead. It necessitates:

  a. Solving the technical problems of identifying and properly classifying much of what has been formerly lumped together as Overhead or Support and relating these to their proper activities as far as possible.

25X1A

  b. Reflecting the remaining, more realistic support costs as such in the supporting detail to the budget

X1A

  c. Adapting related controls such as staffing authorizations and project approvals to incorporate direct support personnel and costs.

GROUP 1
Excluded from automatic
downgrading and
declassification
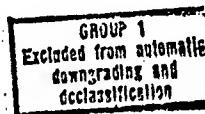
SUBJECT: Financial Code Classification By Activity and Category

8. Much of the work done in preliminary studies to determine how
overhead costs should be charged under a new activity classification
scheme will be useful in preparing a first budget estimate by that scheme
but it will only be after actual data has been classified in the Agency
accounts by that method for the "past" year of a budget presentation that
the system will be truly operative. I see no particular problem in the
Intelligence, Research or Support Areas although they do need to "gear"
into the same system, which they almost naturally will. In the Plans Area,
however, it could involve a considerable re-orientation. The adoption of
this particular recommendation, of course, is not essential. All that
matters is that we arrive at a common, reliable classification that we
can live with for a while. The degree to which we can keep it relatively
simple is also important because of the related procedural problem. With
your approval I will proceed to discuss the proposal with:

    a. The other Budget Division Branches
    b.
    c.
    d. DD/P Budget Officers
    e. ADP Staff
    f. The Financial Code Committee

Chief,
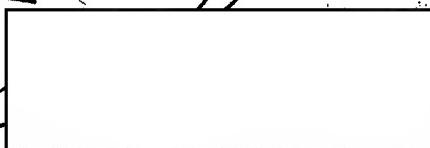
Approved 4 June '63

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29 July 1963

MEMORANDUM FOR: Chief, Budget Division

SUBJECT : Objective Classification for Budget Presentation

1. On 4 June I submitted to you a paper to initiate study of Agency "Financial Code Classification by Activity and Category" as a first step toward our machine application project. This memorandum covers a second phase of the project - the question of object class data.

2. Bureau of the Budget Circular A-11 establishes the object class breakdown required for budget estimates. We then establish the object class information to be required in support of office budget estimates in somewhat greater detail than that required by the BOB. Finally, all Agency expenditures are classified in the full sub-object classification code (now approximately 72 classes) to accumulate the data believed necessary to explain, analyze, or review Agency activities and operations. The object class detail required of the offices is, in effect, a compromise between the data required and the data available.

3. An Agency committee is now studying the Object Class Code. To provide them guidance, and to determine to some extent the direction in which our machine application project is to proceed, we need to establish the object class requirements for future budget exercises. These can then be numbered in the next code so that detail sub-objects will "roll up" into our budgetary object classes and our budgetary classes into the BOB required objects. A simple example in the "travel" classification might be:

BOB	Budget	Expenditure Sub-objects

4. In establishing the list for use in the preparation of budget estimates we should give careful consideration to:

   a. The object class information essential for budgetary analysis as compared with the total detailed breakdown which will remain avail-

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SUBJECT: Objective Classification for Budget Presentation

able for statistical study. We should require only the data which
will contribute to the usefulness of the budget document. We can
always develop special data "on demand" by statistical analysis of
expenditure data or by special studies without unduly complicating
and confusing the budget presentation, particularly since the trend
is obviously away from the "what" detail to the substantive reasons
"why".

b. Budgetary object class data will be more valuable in direct
proportion to its continuity and comparability. The analysis of
comparable data over a period of years can be very revealing. Frequent
or unwarranted changes can destroy much of its utility and offset antici-
pated improvements.

c. Some object classes may require further description in the
proposed "stub" column of any budget estimate. Personal Services, for
example, must be accompanied by position and A.E. data. For this reason
they should be established at the time object class data is considered.

5. Attached is a sample listing of the object class and related data
"stub" column proposed for consideration in a machine-oriented system of budget
preparation. With your approval I will proceed to discuss it with:

a. Object Class Committee
b. Budget Division Branches
c. _____
d.
e. ADP Staff

25X1A

6. I would emphasize again that the items used in the sample list
itself are unimportant. It is essential only that a list be developed and
that it contain the information we and the BOB will desire.

Ch

Attachment
BD/COMP_____(29 Jul. '63)

ADPS
GROUP 1
Excluded from automatic
declassification
SECRET
Approved For Release 2003/06/10 · CIA-RDP76B0095...000100070009-3

9 August 1963

MEMORANDUM FOR: Chief, Budget Division

SUBJECT   : Organizational and Geographic Indicators in the
                    Agency Financial Code

REFERENCE   : A. Memo dtd 4 June '63, subj: Financial Code
                        Classification by Activity & Category
                    B. Memo dtd 29 July '63, subj: Objective Classifi-
                        cation for Budget Presentation

1. To complete our recommendations for the consideration of a
revised Agency Financial Code for FY 1965, we must deal with the ques-
tion of the organizational and geographic data desired. The existing
code has been, for the most part, satisfactory in this respect although
concessions were made in its design because of the original limitations
of the columns available on the IBM card. These limitations are no
longer binding, or at least should not restrict our consideration of an
improved code.

2. Any revised Financial Code should make provision for the identi-
fication of costs by organization in varying degrees of detail. Deputy
Directors will be interested in costs by Office. Office heads will be
concerned with the detail making up their total. As a minimum, data
should be classified:

    a. By major office (EE Div., OCR, or Commo)

    b. By sub-office

Projects may fall into either organizational or functional patterns.
Such "projects" as   will naturally be considered as organizational
breakdowns while others may be classified as functional sub-divisions
of activity categories.

3. The Bureau of the Budget as well as Agency officials also express
great interest in geographic data - in the analysis of Agency effort by

- 2 -

SUBJECT: Organizational and Geographic Indicators in the Agency
Financial Code

location. For this purpose the Code should reflect:

X1

As in the past, these data should indicate the location of our effort.
At the same time, we should provide enough flexibility in the code to
accommodate at a later date classification as to target. At this time,
we do not have sufficient resolution of the "target" requirement to
enlarge upon it.

4. These considerations also will be pursued and discussed with:

a. The Financial Code Committee
b. Budget Division Branches
c. ADP Staff
d. Other Offices

25X1A

Chief,

*Foregoing material distributed
for action (as indicated below) by
this memo*

*Certified copy is
filed in
Financial Code
Committee File*

15 August 1963

MEMORANDUM FOR:

SUBJECT   : Machine Accumulation of Budgetary Data

1. <u>As a first step toward</u> simplifying and improving the physical processes of collection and accumulation of budgetary data by machine or computer methods, we had recommended consideration of <u>a revised Activity and Category (sub-activity) Classification</u> for the Financial Code (See Tab A). We have made other proposals dealing with the detail desired in object classes (Tab B) as well as for organizational and geographic data (Tab C). It is, however, the establishment of a logical, common program or activity classification system which is of primary concern to the various Agency elements.

2. <u>The major problem of adaptation may exist in the Plans Area</u> with its <u>large undistributed support accounts</u>. However, if we are to arrive at a reliable classification of activities that we can use for both accountings and budgeting over a reasonable period of time, we must develop a system which is responsive to the needs of all elements.

3. The list illustrated in Tab A is tentative - for example, it is already apparent that a "Photographic" category should be added to the Technical Collection activity.

4. I would suggest that you consider the proposals within your own areas of interest, solicit comments or recommendations from your offices, and reach tentative conclusions by 31 October 1963 for incorporation or consideration in our final recommendation. I'll be happy to assist in any way I can, and if a joint briefing on the over-all long range project would be helpful, such a briefing can be given.

Chief,

Attachment - Tab <u>A</u>, <u>B</u>, <u>C</u>

Distribution
2 - Addressees
1 -
1 -
1 - Chief Budget
1 - DC Budget
1 -
1 -

1 -
1 -
1 - Each DDP analyst
*1 - Each office of
all components*
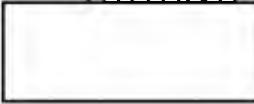
STATINTL

DD/S   LONG RANGE PLANNING (INITIAL INPUT)

FY 1966
FY 1967
FY 1968
FY 1969
FY 1970
FY 1971 - 1975
FY 1976 - 1980

7 books

STATINTL

recd 4 sets from _____ A/DD/S, 28 July 1965

STATINTL

1 set — _____
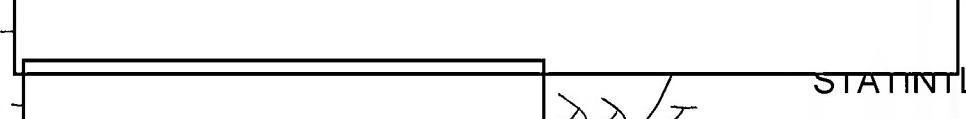
1 set — _____ DD/I   STATINTL
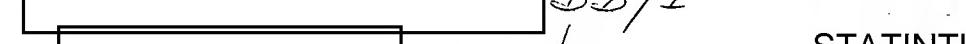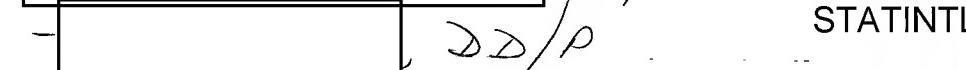
1 set — _____ DD/P   STATINTL

1 set — _____ DD/S+T

25X1A

STATINTL